Certificate of Research

This is to certify that, except where specific reference is made, the work described in this thesis is the result of the candidate. Neither this thesis, nor any part of it, has been presented, or is currently submitted, in candidature for any degree at any other University.

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Table 1.1: Stereotypes of Personnel Management and Human Resource Management

	Personnel Management	Human Resource Management
Time and planning perspective	Short-term reactive *ad hoc* marginal	Long-term proactive strategic integrated
Psychological contract	Compliance	Commitment
Control Systems	External controls	Self-control
Employee relations perspective	Pluralist collective low trust	Unitarist individual high trust
Preferred structures/systems	Bureaucratic/mechanistic centralised formal defined roles	Organic devolved flexible roles
Roles	Specialist/professional	Largely integrated into line management
Evaluation criteria	Cost-minimisation	Maximum utilisation (human asset accounting)

On this view, the long-term proactive, strategic and integrated approach of HRM is contrasted with the short-term, reactive, *ad hoc* and marginal approach of personnel management. The psychological contract of HRM is based on commitment as opposed to compliance under personnel management. The control systems of HRM are based on self-control and autonomy and the language of empowerment by contrast with the external controls of personnel management. From an employee relations point of view, the unitarist, individualistic and high trust approach of HRM is contrasted with the pluralistic, collectivist and low trust perspective of personnel management. The preferred organisational structures of HRM are organic and devolved with flexible roles compared with the bureaucratic/mechanistic and centralised models of personnel management with its formal, defined roles. HRM is largely integrated into line management, whereas personnel management comprises specialist/professional roles. Finally, the evaluation criteria of HRM involve maximum utilisation and human asset accounting as opposed to cost-minimisation under personnel management.

These *stereotypes* are valuable distinctions for classificatory purposes and for defining the precise nature and meaning of HRM but they greatly overstate the practical differences in differing socio-

Table 1.2: Legge's Classification of Models of HRM

Model	Objectives	Examples
Normative	These models attempt to prescribe what HRM ought to be. An ideal type that personnel managers should aspire to in pursuit of a number of psychological, economic or social advantages or rewards for themselves or their subordinates.	Fombrun, Tichy and Devanna (1984) Beer and Spector (1985) Walton (1985) Foulkes (1986) Hendry and Pettigrew (1986) Guest (1987, 1992 and 1997)
Descriptive Functional	These models attempt to identify the role or function of HRM at organisational or societal level. To describe what they perceive as the 'nature' of HRM irrespective of any evaluative assessment of the function.	Torrington and Hall (1987)
Critical Evaluative	These models attempt to identify the role of HRM but from an critical standpoint emphasising the contradictions and ambiguities that arise in the role or function.	Legge (1989) Guest (1990) Kennoy (1990) Kennoy and Anthony (1992)
Descriptive Behavioural	These models attempt to explain the behaviours of managers who identify with the role of HRM from a critical stand point and ground them in observation of the phenomenon or empirical understanding.	Legge (1995)

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17 May 2000

To Whom It May Concern:

This is to confirm the allocations of work on the various books and papers set out in Mr Glenville Jenkins's case for a doctorate by published work. I should add that I fully support his case for this award.

Yours faithfully

M J F Poole

Professor Michael J F Poole

Table: A-1: Individual Contribution to Each Phase of the Published Work (percentages)

Publication Source & Date	Design of the Investigation	Conduct of Research	Analysis of Data	Preparation for Publication
Personnel Management, 1988	30	50	70	50
The Impact of Economic Democracy,1990	30	50	70	50
The International Journal of Human Resource Management, 1990	30	50	70	50
Journal of General Management, 1991	30	50	70	50
International Handbook of Participation in Organizations, 1993	30	50	70	50
Back to the Line?, 1996	50	50	50	50
Journal of General Management, 1996	50	50	50	50
Personnel Review, 1997	50	50	50	60
British Journal of Industrial Relations 1997	50	50	50	40
International Journal of Human Resource Management, 1997	50	50	50	50

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How employees respond to profit sharing

Companies which introduce profit-sharing and share ownership schemes hope they will help retain and motivate their workforce as well as increase productivity. But how far are these aims realised? Michael Poole and Glenville Jenkins report on a study of employees' attitudes to these schemes and shed some light on their true effect

PHOTOGRAPH MIKE PETERS

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The views expressed in the article do not necessarily reflect those of the Department of Employment.

expect a greater degree of commitment to the schemes and possibly a greater impact on their attitudes to work practices and behaviour. Indeed, SAYE participants showed a greater preference than the overall sample for share-based profit-sharing schemes and SAYE schemes in principle, in terms of reward and in their preference for schemes. They also tended to see a marginally greater effect on overall satisfaction at work and in communications between management and workforce.

However, when we assessed the degree of success of schemes in terms of a number of objectives a rather different picture emerged. The most important objectives identified were to make employees feel they were part of a company, to make them more profit-conscious, to increase their sense of commitment to the company and to ensure that employees benefited from company profitability. Employees were asked to estimate how successful the schemes had been in fulfilling these and other managerial objectives (on five-point scales, from very successful to not at all successful).

The results, shown in table 4, indicated that the schemes have been *unsuccessful* in the following respects: making employees more profit-conscious/more interested in the company's success; providing for a more tax-efficient means of reward for employees and the company; and ensuring that employees benefit from the company's profitability. In the majority of instances, however, schemes are typically judged to have been neither successful nor unsuccessful. This applies to increasing employees' sense of commitment to the company, acting as an *incentive* to greater productivity, making employees feel that they are part of a company working *with* it (not just for it), helping to hold wage claims down, increasing employees' understanding of the financial rewards of the company and increasing the sense of co-operation between management and the workforce.

Implications for companies

These findings suggest that employees welcome the introduction of general schemes and feel that their own rewards from schemes are satisfactory. The adoption of a scheme may be accompanied by improvements in satisfaction and in communications in the firm, but there may be far more modest consequences for work practices (such as the effort put into work and productive work done). And, it is unlikely that the more grandiose claims for schemes, such as increasing levels of profit-consciousness among the workforce, will be fulfilled.

Profit sharing and employee share ownership is likely to be beneficial for the company, but on a far more limited scale than the more ardent advocates of these practices suggest. Indeed, the adoption of schemes is likely to improve attitudes and the 'climate' in companies rather more than employee behaviour. Nevertheless, it is frequently argued that competitiveness in companies comes from a series of small-scale improvements which have a significant cumulative effect. Viewed in this light, the development of profit sharing and share ownership is likely to prove valuable so long as expectations of benefits are realistic. Above all, schemes must be viewed as part of a wide range of measures designed to improve company performance and not the sole key to securing a viable future. PM

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The Impact of Profit-Sharing and Employee Shareholding Schemes

by
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Does profit-sharing really pay off? This paper summarises research findings and concludes that they can be valuable so long as expectations of benefits are realistic and schemes are seen only as part of a broad range of evolving human resource strategies.

In recent years, there has been an appreciable expansion in schemes for employee financial involvement both within British companies and overseas. However, managers seeking to establish profit-sharing and employee shareholding arrangements will seek value for money. Above all, they will wish to ask the following central questions. Are there likely to be tangible gains in terms of profitability and productivity? Are industrial relations likely to improve in respect of reduced conflict, and lower rates of labour turnover and absenteeism? And are employees likely to identify with the firm, to wish to reduce costs and to feel a greater sense of involvement and satisfaction?

The aim of this paper is to summarise a wide range of international research findings on the impact of profit-sharing and employee shareholding schemes with a view to answering these and other salient questions for the general manager. We begin by highlighting world-wide experience prior to a focus on three central issues. These are the economic impact of profit-sharing, the impact on industrial relations and the effects on organisational performance expressed in terms of employee efforts to work harder, to eliminate waste, to improve efficiency, to increase quality and to reduce costs.

The International Experience Of Profit-sharing

The development of employee financial involvement in the 1980s has been uneven in Europe, but has become extremely common on the North American continent with the growth in Employee Stock Ownership Plans (ESOPs). European experience of employee financial involvement has been particularly noted in France, Italy, Norway, Portugal, Spain, Sweden and the UK. Further afield, the same development of employee financial involvement has also been noted in Australia, Japan and New Zealand.

European experience shows that while growth has been particularly marked in the UK, the adoption of employee financial involvement is by no means universal. In Germany, for example, employee financial involvement is a relatively rare phenomenon. This is partly explained by the lack of government support for employee stock-ownership schemes, the position of strong unions, the complexity of German company law and the high degree of formalisation of workplace industrial relations.

The most recent advance in the UK in profit-sharing thus cannot be considered in isolation, for it forms part of a much wider change in advanced industrial societies during the 1980s towards profit sharing and employee share ownership in the firm. While internationally the growth of profit sharing and employee share ownership has been disparate and highlights a rich variety of practices in employee financial participation, much of the recent advance can be traced in part to facilitative government measures [1].

Economic Impact Of Profit-sharing

It is important first of all that managers are aware of the economic consequences of profit-sharing and share-ownership schemes, for their influence may be much wider than the development of the firm. The assessment of such consequences has been developed at both macro and micro levels. The first refers to the wider economy and the second to the firm or company level.

Macro-Economic Impact

To begin with, economists have been concerned with the impact of profit-sharing arrangements on the macro-economic performance of nations and have stressed that workers are being priced out of jobs because the present wages system is inflexible and inefficient. On this view, profit-sharing and share-ownership schemes occasion a reduction in unemployment and in inflation by making wages more responsive to changes in economic performance. This occurs by means of the 'sliding scale' principle which links a proportion of wages to profits and/or sales of the company. As sales or profits decline so does profit related pay. Moreover, it is further argued that if labour costs are proportional to total costs, labour costs will have less of an impact on prices and create greater employment flexibility. As a consequence, employers will be unlikely to make workers redundant. Hence, a radical and universal reform of the remuneration system, where a proportion of wages is linked to profits or sales, would reduce both unemployment and inflation.

Undoubtedly the most influential assessment of the macro-economic impact of profit-sharing is contained in Weitzman's *The Share Economy* [2]. However, the general manager should appreciate that Weitzman is best envisaged as part of a long tradition of economists who have advocated the introduction of some form of profit-sharing scheme, his predecessors including Keynes [3], Meade [4] and Kelso and Adler [5]. Central to Weitzman's argument is that lack of wage flexibility is one of the basic causes of both unemployment and inflation. He thus proposes the transition from existing economic relations to a share economy where the labour market would experience a constant excess demand for labour and in which permanent full employment at competitive remuneration, no inflation and an improvement in working conditions and employee attitudes have been effected.

Weitzman's solution to wage inflexibility and thereby unemployment and inflation is thus to create a new universal remuneration system in which profit-sharing plays an important role. This new system is made up of two components: first, a base wage as under existing payment systems and second, a profit related wage - a proportion of the per capita profit earned by the company. Under this payment system, an employer will hire more workers if the added revenue cost of each additional worker is less than the added revenue this worker will produce. Although the hiring of more workers will reduce profit per worker (and hence their level of remuneration), total profits will increase.

However, there are many criticism of Weitzman's macro-economic analysis, and these centre on the problems of implementation and the extent of the schemes impact on existing economic relations. These are examined in terms of employee risk, the arbitrary nature of profit-sharing and the employment and inflationary impact.

In contrast to Weitzman's view, wage inflexibility may be explained in terms of wage stability which highlights the risk adversity strategies of employees. In particular, contracts are entered into with the employer precisely to avoid the wage flexibility that can have a substantial impact on the employee's own financial planning in the domestic sphere. Profit-sharing schemes' can thus expose workers to a significant and unacceptable amount of income risk.

Even if profit-sharing is share based, the risk may be all the more substantial since a declining share price can lead to a dwindling rather than appreciating asset for the workers concerned. Moreover, profit-sharing schemes are potentially arbitrary and unfair in that the locus of decision-making over the distribution of income/profits lies outside employee influence and may bear only an indirect relationship with a particular worker's efforts.

Nevertheless, recent American research gives some indirect support to Weitzman's arguments concerning employment and suggests that employment growth is particularly likely in firms where employees have share option schemes and therefore own a proportion of the equity. Thus Rosen and Klein [6] examined employment growth in 43 employee owned companies (including cooperatives) and found that employment in these companies grew nearly three times as fast as in traditional firms.

However, it should be noted that growth in employment could occasion further problems. Current workers and their union representatives may wish to prevent the firm from hiring extra individuals because any expansion in employment drives down the existing employees' remuneration [7]; and large variations in pay between firms may conflict with the principle of equal pay for equal work [8]. Employers may actually prefer more wage stability than employment stability for, under conditions of full employment, employees will, in the short run, quickly move to firms offering higher total wages. Furthermore, the increased level of employee turnover could be detrimental to economic efficiency in the short term. It is likely, therefore, that employers and workers may have considerable opposition to such a fundamental change in their remunerative systems. Indeed, wage pressures on the share economy are likely to be considerable.

Moreover, so far as inflation is concerned, the share economy may be inherently unstable. Indeed it may be inflationary if a wage component is maintained and the profit component of pay comprises an additional element in the total remuneration package of employees [9].

In principle, of course, opposition to change in the remuneration systems can be overcome by tax incentives in the short run and reduced employee involvement in the long run [10]. But against this, such subsidies may turn out to be merely cosmetic with both management and unions colluding over pay and profit levels. Second, an essential political component in the share economy is that employee involvement in decision-making (and particularly on employment decisions) should be minimized. Above all, a reduction in the influence of trade unions and collective bargaining machinery and other forms of employee organisation which may affect the labour market is viewed as essential. Hence, the reduction of employee participation, a cornerstone of Weitzman's argument, is a development which would run counter to ongoing trends in this direction and to the tendency for various types of employee involvement to be interconnected [12].

Micro-Economic Impact

Economists have also been concerned with the micro-economic effects of profit-sharing, particularly with the consequences for company performance, and these are likely to be of more interest to general management. Briefly, both company profitability and worker productivity are seen as likely to improve following the introduction of profit-sharing schemes. Given such major claims, it is important to examine in more detail the micro-economic consequences of profit-sharing.

A wide range of studies (the majority from the USA) have pointed to a relationship between profit-sharing and share-ownership schemes and company economic and financial performance. Generally, firms which have profit sharing arrangements have been shown to outperform non-profit-sharing firms. This applies to profits as a percentage of net worth and income, turnover, net worth, dividends and share price [13]. In Europe, too, in an analysis of share valuations in the UK retail sector, Richardson and Nejad [14] have argued that financial participation occasions a significant improvement in company performance on the share market. Moreover, they provide some support for the proposition that a strong managerial commitment to profit-sharing and share-ownership schemes improves performance as well. Furthermore, there is a clear link between the adoption of schemes, and trends in business volume and annual turnover of companies [15].

Yet, despite these and other research findings which we will examine shortly, there still remains some doubt as to whether companies perform better because they have profit-sharing and share-ownership schemes; or whether they are successful companies which would perform well even without such schemes but feel they should share the success of the company with their employees.

Profitability

Although European research on the impact of profit-sharing and share-ownership schemes on the economic performance of companies is relatively limited, in the USA several studies have examined this relationship. In one of the earliest of these, Conte and Tannenbaum [16] compared the profitability of 30 companies with employee ownership arrangements. They found that those companies with employee ownership arrangements were 1.5 times more profitable than those firms of comparable size which did not have such arrangements. More recently, Wagner [17] found that companies with at least ten per cent employee share ownership performed equally as well on overall returns on investment as other companies in the same industry. Moreover, on net operating margin, growth sales, book value/share and return on equity, firms with employee ownership outperformed the other companies studied by 62-75 per cent.

However, the research findings are not entirely consistent. Indeed, others have noted [18,19,20] that, on average, employee share ownership had an adverse affect on profitability. Moreover, further research [21,22] found that employee share-ownership schemes had no significant effect on profits.

Nonetheless, it should be stressed that some inconsistency in the findings is not surprising, since employees' efforts in improving the profits of their firm may be counterbalanced by events outside their control. Indeed, the impact of external events on company profitability may enhance or reduce profits within a typical firm regardless of the initiatives or efforts of the majority of employees.

Productivity

The impact on productivity is primarily concerned with incentives and, according to Nuti [23], the viability of profit sharing `depends in large measure on these productivity-enhancing effects'. It is hypothesized that the introduction of profit-sharing schemes will create an incentive to work harder and more effectively in order to improve profits. General management will be familiar with traditional incentives which link individual effort to reward. However, profit-sharing schemes are a social or group incentive where the efforts of all employees contribute to improved rewards (either through cash or shares). This form of group incentive is organisationally based and, because it leaves considerable discretion to employees to avoid increasing their productive effort, it may increase the need for management supervision as well. Nonetheless, such disadvantages can be avoided if the incentive is linked to work or peer groups at the level of the task, with employees acting as monitors of other workers' performance. As Nuti [23] as proposed:

'A productivity increase can be expected (at no cost to the workers) as a result of intelligent and effective use of any given individual level of effort, co-operating with other workers and management, and monitoring and supervising each other's effort, efficiency and co-operation'.

Indeed, the impact on productivity may be particularly strong where there is a limited number of employees and individual employees can link their increased effort or productivity directly to profits performance.

There is also some, albeit limited, empirical evidence to support the view that increased employee commitment in the profit-sharing firm raises productivity levels, This conclusion is suggested by American studies which have compared commitment and productivity in employee-owned plywood firms and supermarkets with traditional firms in the same industries [24]. Furthermore, Marsh and McAllister [25] examined 128 US companies with ESOP schemes and found that, on average, productivity increased 0.78 per cent per annum in these firms compared with an average decrease of 0.74 per cent for a weighted national sample of companies.

Impact on Industrial Relations

Both general managers and specialists in personnel management may be particularly interested in the case for extending employee financial participation in terms of the impact on industrial relations. There are a number of partly separate and partly interlinked arguments here which relate to management-union relations generally, industrial conflict (including strikes and rates of absenteeism and labour turnover), managerial authority relations and trade unions and collective bargaining.

Management-Union Relations

The change in employee status from employee to employee shareholder may thus have implications for industrial relations within the company. In principle, employee shareholders may be considered to be a fairly homogenous and identifiable group with common interests both in terms of their corporate investment and in their employment relationship with the company and, as such, their collective interests may differ from those of the ordinary employee. This has implications for existing channels of representation and participation, particularly through trade unions.

Above all, it is conceivable that, as a result of increasing their identification with other shareholders and with the company, employee shareholders may perceive little need for collective representation of their interests by trade unions. This may mean that the position of trade unions in the company could be weakened and a schism created between ordinary employees and employee shareholders, thereby reducing the level of solidarity in the union [27]. Alternatively, if employee shareholders retain an instrumental orientation to work, their attitudes may not differ markedly from those of ordinary employees and the importance of the wage/effort bargain may still be dominant. On this view, the trade union traditional role will be little changed. However, employee shareholders, because of their common interest with other employees and improved status as shareholders, may seek additional individual or collective participation in decision-making through the union; and, if the majority of employees are shareholders, this could significantly change the traditional adversarial or conflictual role of trade unions to one of providing an alternative to managerial expertise in the efficient running of the company. Conversely, it could extend the range of conflict to encompass areas where management is viewed as not performing its traditional functions.

Industrial Conflict

Turning more specifically to industrial conflict, it has long been argued that one of the main effects of profit-sharing schemes is the reduction of conflict in the workplace. Some recent research has also pointed to this conclusion [28]. However, there still remains some ambiguity as to the impact of ownership on industrial conflict. While Long [29] and Estrin and Wilson [30] have suggested that employee ownership reduces conflict; others, such as Meade [31], have argued that profit-sharing could increase it. By contrast, Stern et al [32] have proposed that industrial conflict will decrease in the short term because of the employees' efforts either to protect jobs or to increase profits or both; but increase in the long term and become more intense because of dissatisfaction with the control structures in the enterprise that typically obtain under most profit-sharing and share-ownership arrangements.

But industrial conflict itself is a multidimensional phenomenon with both attitudinal and behavioural dimensions. It may well be, therefore, that any assessment of the impact of profit-sharing and employee share-ownership requires a detailed analysis of various aspects of conflict such as strikes, labour turnover and absenteeism [33]. Indeed, it may be the case that there are variable consequences of the introduction of schemes on each of these (and on other) dimensions of conflict itself.

Managerial Authority Relations

Perhaps more importantly for the general manager, employee share ownership is also thought to have implications for managerial authority relations. Indeed, on one view, the employee is placed in a position to delegate the running of the company to management. However, in reality, the increasing diversification of share ownership effectively means that the status of the employee shareholder is little different from that of the small investor, whose impact on company affairs is undoubtedly marginal.

Therefore, little real influence in the day-to-day running of the company can be expected from minority shareholders such as those in share-ownership schemes.

Indeed, although employee financial participation and decision making involvement are linked, share ownership schemes are rarely accompanied by significant relocation of control as in the case of co-operatives or totally owned employee concerns [34]. In privatized companies in the UK, workers have received a substantial number of shares as a gift (or fringe benefit) but without gaining significant ground in exercising greater influence or participation in decision making. Furthermore, there is said to be little expectation of control under these arrangements [35].

The legitimate basis for managerial authority to control the enterprise rests not only upon expertise in running the company but also on property rights. Employee share ownership potentially affects the property relation of managerial authority when employees purchase shares in the firm. As shareholders, employees attain additional financial interests in their companies. However, as with other shareholders, the employee shareholder delegates operational responsibility to management for the efficient performance of the company and a sufficient return on his or her investment. Employee shareholders have no joint ownership over the property or assets of the company or little direct influence over its personnel. Their rights remain limited to those of liability and interest on shares they own. Thus, particularly in large organisations, mere share ownership often amounts to a situation of little real influence by minority shareholders.

Share ownership does, however, confer certain rights on the shareholder such as electing the board of directors, the right to financial information about the company and participation in the annual general meeting. Moreover, Long [36] has argued that employee shareholders are in a stronger position than the typical shareholder in a large company. This is because employee shareholders have access to much more information and knowledge about the company simply because they work there. Employee shareholders are concentrated within the organisation and not dispersed as is the case with other shareholders. Employee shareholders in the company are, therefore, a fairly homogenous and readily identifiable group with common interests based on a specific employment relationship. It is possible, therefore, that the collective representation of employee shareholders' interests may, as we shall see, effectively counter managerial expertise on certain issues either through shareholder institutions (the company board) or through traditional avenues of employee representation (collective bargaining).

Trade Unions and Collective Bargaining

But, as far as industrial relations are concerned, no issue is more fundamental than the potential impact of employee financial participation on trade unions. As has been noted earlier, profit sharing and share-ownership schemes can effect a change in the character of the union's constituency from one of representing employees to one of protecting the rights of employee shareholders [37]. But this change is contradictory to the development of traditional trade unionism, being fundamentally opposed to the principles of collective bargaining and trade unionism [38]. To the extent that profit-sharing schemes reduce labour turnover and labour mobility, they remove a necessary condition for the individual employee to make the best possible bargain with his or her employer. And, as we noted elsewhere, such schemes may destroy 'the community of interests' on which collective bargaining depends by creating a vertical schism between employees [39]. Hence, they may reduce trade union solidarity and bargaining power.

More recent evaluations of this pessimistic role for trade unions is provided by Hanson [40], Bradley and Gelb [41] and Bradley [42]. Bradley and Gelb [43] thus note in their review that the:

'Transitions to employee ownership appear to be able potentially to weaken the nationwide, traditional role of trade unionism as representative of the working class through the mechanism of collective bargaining'.

Bradley [44] has also suggested that profit-sharing arrangements form part of a general demise of union influence through traditional channels, in that:

'With limited resources and tight monetary policy, traditional collective bargaining is seen as a zero sum (or negative sum) game, where one man's wage hike is another's unemployment. Thus, a new co-operation between trade unions and management is encouraged and the focus of industrial relations is shifted away from traditional collective bargaining'.

Nonetheless, there is evidence, notably from the American context, to suggest that employee share ownership has not led to a reduced perception for the need for trade unions [45]. This is particularly evident where power relationships continue to remain unequal, characterized by unequal equity holdings among differing employee groups and a lack of democratic control within the firm. Indeed, in these instances, the perceived necessity for trade unionism may increase in the longer term [46].

But some changes in the union role under profit-sharing and employee ownership arrangements can be expected [47]. More specifically, it may be anticipated that the union's role will significantly change if a substantial proportion of wages is linked with profits performance. Paradoxically, however, this may not necessarily be to the detriment of the union. Indeed, shop stewards may increasingly have to deal with the problem of so-called 'accounting manipulation' (e.g., transfer pricing) in order to ensure that the relative share of profits accruing to the membership is reasonable [48]. This would require even greater disclosure of information to unions or employee representatives than at present. Moreover, this level of provision would eventually give rise to increased managerial accountability and trade union assessment of management decision-making. As a consequence, the union's normal 'reactive' role [49] in formal negotiation may change. Above all, a greater role in certain types of decision-making would be required to augment the size of the employees' share of the profits. And the increased expertise needed, particularly with regard to profit allocation, could require a more centralized union structure and possibly a move away from plant level bargaining arrangements.

Indeed, on another set of assumptions, profit sharing may increase unionization. Thus, Mitchell has argued that a profit-sharing system puts non-union employees at a disadvantage in that they have no voice in management decisions which affect their share of the profits [50]. He agrees with the Webbs [51] that employees could not adequately verify the size of the financial share without the union's organisational expertise and bargaining power. Hence the union's claim to expertise could be crucial to increasing its decision-making and regulatory role and thus its ability to recruit membership amongst profit-sharing participants. But of course such a change would require a modification in traditional union policies towards profit-sharing and share-ownership schemes.

Organisational Impact

Management at all levels in the company should be interested in the effects of profit sharing on organisational commitment. Indeed, there is evidence to suggest that attitudes rather than behaviour are more affected by the introduction of profit-sharing and share-ownership schemes. Bell and Hanson [52] and Fogarty and White [53] have thus reported high level of support by employees for profit-sharing in principle and for company schemes and an increased interest in the profits and financial results of the company.

Turning to the third broad area where the impact of profit-sharing and employee-shareholding schemes has been examined, there are several issues of relevance to general managers in terms of the potential consequences for organizations. These include: (i) employee involvement; (ii) organisational identity; and (iii) employee satisfaction and commitment.

Employee Involvement

Profit-sharing and share-ownership schemes may be initiated by management for a number of reasons, among which are to improve the productivity of their employees, increase their sense of loyalty to the company or to augment the level of employees' direct participation in the company. As such they form part of a managerial strategy to influence the level of output, the degree of commitment and the level of joint decision-making between management and employees. Furthermore, it is thought that profit sharing and particularly share-ownership schemes offer employees the opportunity to increase their involvement in the workplace, improve their level of financial understanding and the degree of communication between employees and management.

Employee participation in ownership has thus been viewed as a means for employees to influence company policy and to share in the rewards of work. For Tannenbaum [54] and Long [55] in particular, employee ownership results in an increase in levels of worker participation and control. After all, through share-ownership, employees achieve certain control rights which they would otherwise not possess. Long [56], for example, has concluded that employee share-ownership increases worker influence at organisational policy levels. The employee's desire for worker participation is increased by share ownership because ownership confers a legitimate right to participate in decision-making. It also increases 'organization identification' which, in turn, leads workers to become more interested in the affairs of their places of work [57]. These additional rights and stronger organisational identity thus increase the desire of workers for more influence in decision making at policy, departmental and job levels in the company.

Studies of worker co-operatives have also pointed to improvements in participative arrangements [58]. And other investigations [59] have reported that the percentage of company shares owned by employees is positively related to increased employee participation. By contrast some analyses of individual firms [60] have found no significant relationship between employee ownership and perceived or desired worker influence. Indeed, for Hammer and Stern [61], share ownership may be associated with a decline in the desire for worker influence [62].

Hence the research findings on employee participation remain contradictory and do not clearly point to a conclusive relationship between ownership and employee participation in decision making. However, such research clearly provides some, if limited, evidence of an association between ownership and participation [63].

Profit-sharing and share-ownership schemes, then, may impact upon managerial practice and control in organisations by increasing the degree of participation both directly (voting for the board of directors) and indirectly (increasing the level and degree of communications and managements' formal or informal responsiveness to employees' collective interests) [64]. This may be further enhanced because, as Long [65] notes, managerial attitudes towards worker participation may be influenced by employee share ownership. First, management may respond to the changed basis of their authority and the increased desire for participation in decision-making brought about by workers' legitimate property rights and increased organisational identity. Second, employee share ownership may increase managerial perceptions of the legitimacy of increased employee involvement. Third, managers may believe that the perceived increase in commitment shown by workers results directly from employee share ownership and may promote further formal participation to enhance this development. And fourth, employee share ownership may occasion increased delegation of authority at all levels in the organisation.

Further evidence [66] also confirms Long's emphasis on the importance of management's philosophical commitment to share ownership in significantly enhancing the effects of profit-sharing and share ownership schemes with regard to employee involvement and commitment to the company. Moreover, it should be stressed that the effectiveness of profit-sharing and share-ownership schemes may have more to do with managerial philosophy and style than with the level of share ownership *per se* [67].

Organisational Identity

A further argument in the literature relates to organisational identity and to instrumental attachments to work. It is hypothesized that when employees become shareholders they will have a further financial incentive to increase the worth of their share investment. This form of incentive has advantages over other forms in that, although indirect, it is thought to be long term and self-reinforcing [68]. Moreover, financial incentives are considered to be more effective when linked with ownership and, inasmuch as share ownership increases the employee's financial stake in his/her place of work, it also increases the instrumental importance of work. Thus, employee shareholders may be even more inclined to direct their individual and collective behaviour towards the corporate goal of increased profits rather than to the traditional worker's goal of higher wages and improved conditions of work [69].

However, employee share ownership schemes involve more than just the reward/effort relationship. Employees who participate in these schemes can now be clearly identified in a fundamental way with other shareholders through their common investment in the firm. More than this, the schemes, in changing the employee's status from one of 'employee' to 'owner' can occasion a link between employee interests and the interests of shareholders and the company [70]. Thus, in contrast with cash based schemes, share-based arrangements (while also appealing to employees' instrumental orientations) purport to create a moral commitment to work and organisational goals and to effect substantial changes in employee attitudes and behaviour by creating a broader 'organisational identity' amongst employees generally [71]. The identity with the company is encouraged by increased communications between management and the employee shareholder over and above that of the ordinary employee. Thus, employee shareholders receive the company's annual financial report and other shareholder information in addition to existing disclosure of information arrangements in the company (whether through management's own initiatives or through collective bargaining). Regardless of the employee's competence to evaluate such information, this involves an increase in communication of the financial status of the company and of important company policy; and, as such, it is scarcely surprising that Bell and Hanson [72] have reported high levels of support by employees for profit sharing in principle and for company schemes and an increased interest in the profits and financial results of the company. Indeed, nearly a half of the respondents (47 per cent) said their loyalty to the firm had been strengthened and just over half (51 per cent) felt that the schemes made people work more effectively [73].

In sum, it is thought that the combination of these factors may occasion an identification of employees with the firm and the products it produces. Indeed, the increased employee identification, and commitment to the company and the enhanced interest in work may also influence either prospective employees to join, or existing employees to remain with, the company itself [74].

Employee Satisfaction and Commitment

But does the introduction of profit-sharing and share-ownership schemes transform employee attitudes? So far as employee satisfaction is concerned, there are thought to be at least two ways in which this may be improved through share ownership. First of all, share ownership may directly affect employee satisfaction in the sense that ownership itself confers benefits on employees (such as, increased financial rewards). Second, it may indirectly affect employee satisfaction by increasing employee influence and involvement [75].

Turning to the actual evidence, Long [76] and Hammer, Stern and Gurdon [77] have found positive relationships between employee ownership and employee satisfaction in individual firms. Also, a larger and more recent study [78] suggests that under the right conditions, employee share ownership can lead to increased employee satisfaction. However, other American studies have reported no significant difference in employee satisfaction between employee shareholders and non-shareholders [79].

The different findings may stem in part from the likelihood that satisfaction and commitment will be significantly influenced by the size of the company's contribution to the schemes (the amount of shares the participants receive and management's philosophical commitment to workers' ownership). This would suggest that employees may regard the company's financial contribution as an important element in improving their morale and satisfaction at work [80]. Other findings also suggest that the number of shares employees own, and the value of these shares, has some bearing on the perceived need for greater participation and control. Indeed, in Hochner and Granrose's [81] study of a proposed employee buyout, employees highlighted entrepreneurship (financial gain being prominent) and participation as the major benefits of employee ownership.

Satisfaction may also stem from improved financial benefits. Thus, in Long's [82] study, employees felt that the advantages of employee ownership were in order of preference: financial gain; the satisfaction of working for oneself; greater influence in decision-making; a chance to benefit from one's own efforts; and, better understanding between management and employees. And Rosen and Klein [83] concluded that employees are primarily motivated and inspired by the potential financial rewards of the schemes than any other factor. More generally, too, there is evidence from other than North American sources that employees' perceptions of the benefits of schemes arise from instrumental orientations to share schemes. Goldstein's [84] West Australian study suggests that improvements in overall satisfaction, commitment, application (effort) and responsibility are positively related to the economic performance of the company. As a consequence, employee share ownership is viable only as long as the company can maintain a reasonable level of performance [85].

In short, the impact of employee share ownership on worker satisfaction links any improvements here to both the financial rewards of share ownership and to the possibility of enhanced employee participation. Moreover, what is clear is that there is an instrumental motivation of workers in becoming shareholders. However, this instrumentalism may take different forms such as protecting one's job, one's sole source of income [86], or increasing financial awareness [87].

Conclusions

This survey of international arguments and data on the impact of profit-sharing and employee shareholding schemes indicates that there is a wide range of possible consequences. Overall, a note of caution is apposite. The effects of schemes appear to be broadly positive but they do typically fall short of the claims of the most ardent enthusiasts for employee financial participation. However, from a general manager's perspective, it should be stressed that competitiveness, in particular, is often the consequence of a series of small-scale improvements which have a significant cumulative effect. Viewed in this light, the development of profit-sharing and share ownership schemes is likely to prove valuable so long as expectations of benefits are realistic and schemes are seen as only a part of a broad range of measures designed to improve company performance itself.

The foregoing guide has provided information for the general manager on the likely impact of profit-sharing schemes on managerial practice. This is because profit-sharing and employee-shareholding schemes may be linked with policies on employee participation and organisational democracy, with the objective of increasing the sense of identity of employees with the companies in which they work; and second, as we have mentioned, the case may be advanced in terms of competitiveness. Profit-sharing and employee shareholding are seen to advance this through improved motivation and commitment of the workforce, together with greater flexibility and adaptability and higher levels of productivity and profitability. Moreover, these policies are further linked with the broader economic objectives of reducing unemployment and inflation.

More specifically, these policy choices can be said to have important implications not only for the overall economy but also for company performance, employee performance and employee attitudes to work. If the effects of such policies are fulfilled then the work of the general manager may be made that much easier for he/she is likely to work with a more satisfied, more committed, more flexible and more productive workforce. And it will be a workforce which identifies more with general management's objectives on human resource management generally. The likely impact of this identification will result in greater security for both management and employees and give rise to increased profitability and reductions in absenteeism and labour turnover. However, the introduction of employee financial involvement is also likely to require changes in the attitudes of general management themselves not only in the extent to which they are committed to the introduction of profit-sharing and share-ownership schemes but also a change in attitude toward the relationship between manager and employee, where the employee and manager are both part-owners of the company.

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Competitiveness and Human Resource Management Policies

by
Michael Poole and Glenville Jenkins

Competitive strategy based on human resources can be less easy to copy.

There are many ways in which companies can gain a competitive edge or a lasting and sustained advantage over their competitors, among them being the development of comprehensive human resource management policies. Indeed, the adoption of sophisticated human resource management policies and practices is seen as one of the major keys to competitive advantage in the modern world. This is not least because such practices can be formidable weapons in highly competitive environments because of the inability of competitors to formulate an effective response in the short term.

Part of the rationale for this argument stems from the work of Michael E. Porter [1] who, in *The Competitive Advantage of Nations*, has argued that national prosperity is created not inherited. Moreover, in his view, the most important factor conditions of national competitiveness include skilled human resources and the scientific base and not, as the classical economic theory of comparative advantage suggests, factors of production (low cost of labour, land, natural resources, capital and infrastructure).

Other important strands in this way of thinking have been the literature on 'excellence' and the parallel interest in Japanese management practices. One of the lessons of pace-setting books like, *In Search of Excellence* [2], has been that firms with equivalent technology and infrastructure vary greatly in competitiveness and that this relates to the levels of 'excellence' achieved by the companies. Moreover, this has been seen to be linked in important ways with organizational cultures and the types of human resource management policies and practices that have been

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introduced. Similar types of argument have been used to interpret the considerable success of Japanese firms on a global scale [3]. Essentially the advanced personnel and employment policies of Japanese companies have been viewed in important ways to underpin their competitive advantage. In particular, the traditional (albeit changing) policies on life-time employment and on seniority-based reward systems have been seen to be related to the organizational commitment of employees and their willingness to identify strongly with the company and hence to further its success.

More recently, too, the argument has emerged that *sustained* competitive advantage is also linked with human capital resources. Essentially, it is possible to define human resources 'as the pool of human capital under the firm's direct control in a direct employment relationship'. Moreover human resource practices 'are the organizational networks directed at managing the pool of human capital and ensuring that the capital is employed towards the fulfilment of organization goals' [4]. However, in order to qualify as a source of *sustained* competitive advantage, the resource must add value to the firm, it must be rare, it must be inimitable and there must be no adequate substitutes. And, on all these counts human capital may be regarded as a particularly valuable resource for achieving sustained competitive advantage.

The Study

The aim of this paper is to examine the extent to which managers in Britain consider that their firms have adopted or support various human resource policies aimed at improving competitive advantage. The data reported in the article are based on a postal survey of fellows and members of the Institute of Management. Questionnaires were sent to a random sample of fellows and members of the Institute of Management in January 1994 and, to increase the response rate, there was a second posting in March 1994. From the original sample of 3,000 there were 909 usable returns (a response rate of 30.3 per cent). This is not untypical of postal surveys and, in absolute terms, provides a substantial number of respondents upon which to base our conclusions. The largest single group of respondents was in general management (28 per cent), with the remainder spread amongst a wide range of other functional areas.

Eight main categories of issue were encompassed in the questionnaire:

1) The role of human resource management in the strategies of the firm; the nomenclature, organization and recruitment of the personnel/human resource department, and details on the human resource management role.
2) The adoption of human resource policies for gaining competitive advantage focusing on: corporate development; training and development, communications and participation, employee

welfare and rewards and performance.

3) Employee involvement concerning areas as diverse as communications and joint consultation, collective bargaining and employee attitude surveys.
4) Training and development encompassing appraisal, management development and a variety of modern career, training and development approaches including Investors in People and National Vocational Qualifications (S/NVQ's).
5) Work practices such as job enrichment, broadly defined jobs and employee responsibility for quality control.
6) Human resource management approaches to rewards including profit sharing, profit related pay, payment for quality and equal pay for equal work.
7) The effects of the business environment on future developments in personnel/human resource management such as increasing competition, changing employee values and European applications and developments.
8) Demographic and other information on such issues as respondents' jobs, functions, their educational backgrounds and inter-firm mobility [5].

Competitive Advantage

Broadly speaking, five major groupings of human resource management policies and practices that are germane to competitive advantage have been identified : culture, organizational structure, performance management, resourcing, communications and corporate responsibility. Various operational indices of these policies were developed in a major world-wide survey conducted under the auspices of the IBM Corporation and Towers Perrin entitled, *Priorities for Gaining Competitive Advantage* [6]. In summary, it is possible to identify a number of elements in each cluster.

Culture:
~ Promoting an empowerment culture;
~ Promoting diversity and an equality culture.

Organizational structure and control:
~ Emphasis on flexible organizations/work practices;
~ Emphasis on utilising IT to structure the organization;
~ Emphasis on horizontal management;
~ Emphasis on increasing and promoting customer service;
~ Emphasis on rewarding innovation/creativity;
~ Link between pay and individual performance;
~ Shared benefits, risks and pay for team performance.

Resourcing:
~ Emphasis on external resourcing;

~ Emphasis on internal resourcing - training and careers;
~ Emphasis on internal resourcing - managing outflows.

Communication/Corporate responsibility:
~ Emphasis on communication;
~ Emphasis on corporate responsibility.

These were adapted to the British context and informed a series of items in the questionnaire. For the purposes of our own survey, we examined: (1) corporate development, (2) training and development, (3) communications and participation, (4) employee welfare, and (5) rewards and performance. The evidence from each of these broad categories is presented in the analysis that follows.

Corporate Development

The term 'corporate development' is used here to categorise a variety of organizational change programmes or initiatives that have developed in response to a variety of environmental conditions. Over the past decade and more, significant changes have taken place in the business environment in which the practice of human resource management takes place.

First, the importance of rapidly changing national, European and global markets and the consequent increase in competition has forced firms to re-evaluate technological and organizational practices in order to respond to such changes and meet the challenges of the new market place. The global economy has undergone two major recessions in the early 1980s and early 1990s bringing with them problems concerned with growth and unemployment. Other significant changes are the creation of the single European market in 1992 to maintain European competitiveness, the accelerated growth of far Eastern economies, the continued expanding share of output of multi-national enterprises and the promotion of free trade.

At a European level, western European economies have undergone a structural transformation identified in movements from manufacturing to service industries, from predominantly manual to white collar employment and from traditional heavy industries to those of the microelectronics and capital goods industries.

Within the UK, the election of successive Conservative administrations has seen the promotion of policies emphasising privatisation, deregulation and a greater emphasis on individualism in the workplace. In contrast, the European Union has promoted a range of collective and individual rights of employees to which the UK plays little or no part.

Managerial responses to such changes reflect a flattening of organizational structures and a movement to decentralised organizational structures, together with greater numerical and functional flexibility. Management has also promoted quality as a key element in the competitive strategy with a consequent increase in new technology and responsibility for the employee.

The continued response to such pressures has driven most organizations to review their structures. Frequently such restructuring is reflected in the practices of delayering and downsizing - most recently of middle management - developing a flexible and adaptable workforce, promoting empowerment and creativity together with equal and life-long employment opportunities.

In the light of such changes, we were concerned first of all to establish the extent to which our respondents' organizations supported a series of human resource management policies with respect to corporate development. The questionnaire items included: (1) radically increasing spans of control (eliminating extensive layers of middle management), (2) flexibility of employees, (3) utilising non-permanent workforces, (4) promoting an equal opportunities culture, (5) providing full employment, (6) promoting employee empowerment, (7) promoting flexible, cross-functional teams and action work groups and (8) enlarging the definition of opportunity to include autonomy and the use of creative skills.

The results are set out in Table 1 in which the items are ranked according to the extent to which respondents' organizations supported, or not, a given human resource management policy. It will be noted that the need for a highly flexible workforce to meet the challenges of an increasingly changing environment is clearly recognised by the substantial majority of our respondents' companies. Thus, 77.6 per cent of respondents indicated that their companies either supported or strongly supported the idea of a flexible workforce.

Interestingly, too, equal opportunities is clearly an issue which is high on the agenda of Britain's companies. Thus, 76.9 per cent of respondents reported that their firms either supported or strongly supported the policy of an equal opportunities culture. This may stem in part from the considerable interest in these issues in Britain in recent years and it is, in any event, an interesting finding. Another concern in recent years, in Britain, has been to increase spans of control and to have a policy of 'delayering' which has radically affected middle management in Britain. This is again clearly evident from our findings, because 63.2 per cent of respondents indicated that their firms supported or strongly supported policies to increase radically spans of control and to eliminate extensive layers of middle management. This can, of course, create considerable stress and uncertainty amongst those affected (or likely to be affected). But the extent of commitment to this policy in Britain is clearly noticeable.

The commitment to flexibility is also evident in two further respects:

(1) the promotion of flexible cross-functional teams and action work groups and (2) the utilisation of a non-permanent workforce to reduce labour costs (the latter policy, incidentally, runs counter to traditional human resource management policies in which considerable job security has been emphasised). Thus, 58.9 per cent of respondents reported that their companies either supported or strongly supported policies to promote flexible cross-functional teams and action work groups: and, 52.1 per cent of respondents indicated that their firms endorsed the use of a non-permanent workforce to reduce labour costs.

Table 1: Extent of Support for Various Human Resource Policies Linked with Corporate Development (percentages)

Corporate Development	*Strongly supports*	*Supports*	*Neither supports nor against*	*Against*	*Strongly against*
Require flexibility of employees to change jobs, skills, and/or location	38.7	38.9	15.2	6.0	1.2
Promote an equal opportunities culture	44.1	32.8	17.5	3.8	1.8
Radically increase spans of control; eliminate extensive layers of middle management	23.3	39.9	27.5	5.8	3.5
Promote flexible cross-functional teams and action work groups	20.7	38.2	28.6	9.0	3.5
Utilise non-permanent workforce (vendors, part-time employees, retirees) to reduce labour costs	19.1	33.0	24.3	15.0	8.6
Enlarge the definition of opportunities to include autonomy and the use of creative skills	11.2	39.1	35.6	10.7	3.3
Promote employees' empowerment through ownership and accountability	15.2	31.5	30.1	12.4	10.8
Provide full employment (life-time job security with the organization)	8.7	19.0	39.2	18.2	15.0

The development of a committed and satisfied workforce is obviously important to competitive advantage. And, in this respect, it is interesting that the majority of respondents (50.3 per cent) reported that the policy in their firm was to enlarge the definition of opportunity to include autonomy and the use of creative skills. Positive scores outweighed negative ones in the case of empowerment; hence, 46.7 per cent of respondents suggested that their firms supported (or strongly supported) policies to promote employee empowerment through ownership and accountability.

The provision of full employment (life-time job security) within the organization does not, however, feature prominently in British companies. It is true that 27.7 per cent of respondents did indicate that the firms supported such policies; but 33.2 per cent reported that their companies were either against or strongly against such a policy. Indeed, the predominant conclusion is that firms in Britain are more likely to be lukewarm (neither being in support of or against) full employment policies (39.2 per cent of respondents indicating that this was the case). But it is clear that Japanese-style permanent employment policies are not typically accorded a high priority in the human resource management policies of the typical British company.

Training and Development

Modern debates on the competitive advantage of nations and companies have focused increasingly on human resource development as well as on human resource management issues. For instance, in the USA, John T Dunlop [7] has argued that economic growth and improvement in productivity depend on four basic factors: research and development, investment in plant and equipment, investment in infrastructure and investment in human resources development. Moreover, in his view, human resources development and the creation of a more productive, skilled and adaptable workforce in turn depends on six factors:

1) The education system;
2) Health care;
3) Training and retraining;
4) Family policy;
5) Labour-management policies at the workplace, and
6) The general health of public service in the country.

In addition, in a major survey of Western European nations, human resource development was found to be the most important personnel function in all the main countries covered, and more important than, say, compensation, industrial relations or productivity management. [8].

So far as management in the actual enterprise are concerned, apart from industrial relations policies, the training and development of the workplace in thus viewed as a key to competitive advantage. However, in recent years, the situation in Britain has been a cause of considerable concern; so much, so, indeed, that Ewart Keep [9] has referred to a so-called 'training scandal'. In the 1990s, there were various attempts to overcome the problem, but whether or not these have been sufficiently substantial to improve the situation remains debatable. Training and development can obviously be defined as forms of activity aimed at the improvement of human capital within an organization, and can be viewed as either a cost or an investment. For governments, the main issue is to ensure a better education, better trained and more adaptable workforce as a means of aiding national wealth creation. For employers, the concern is to improve the capacity of existing employees to perform a reasonably well-defined set of activities. For employees, the interest is likely to be in maximising the returns of the individual from skill acquisition. The central thrust of the case for human resource development, however, is that training should be regarded as a vital investment and not as a drain on the resources of the firm.

Returning to the survey, respondents were asked to what extent their organizations supported various training and development policies that included (1) recruiting from non-traditional labour markets, (2) the use of graduate recruitment schemes, (3) the provision of skilled training for new employees, (4) identifying high-potential employees early and developing them quickly, (5) requiring continuous training and retraining of all employees, (6) increasing management development, (7) requiring employees to self-monitor and self-improve throughout their careers and (8) active corporate involvement in public education issues to ensure a quality workforce.

The results are set out in Table 2, where the items are again ranked according to the extent of which respondents indicated that their firms supported a particular policy. It is clear, first of all, that the provision of skills training for employees features strongly in this rank order, with 76.5 per cent of respondents indicating that their firms either supported or strongly supported such a policy.

There is no doubt, too, that firms in Britain are much more aware of the importance of developing their managers than was once the case. Hence, it is scarcely surprising that 69.8 per cent of respondents reported that their firms endorsed management development policies. Career development also appears to feature prominently. Thus, 62.8 per cent of respondents indicated that the firms either supported or strongly supported the policy that employees should be required to self-monitor and self-improve through their careers. Employee as well as management development also appears to be a policy which is subscribed to in British companies. Thus, 58.3 per cent of respondents indicated that their firms either supported or strongly supported the policy of identifying high potential employees early and developing them quickly. Moreover, 54.5 per cent of respondents reported that their firms required the continuous training and retraining of all employees.

Of rather less saliency to the policies of British companies, however, appears to be external training and development issues (though in all cases positive scores outweighed negative ones). Thus, 47.2 per cent of respondents indicated that their firm's policy was to use graduate recruitment schemes, while 37.5 per cent said their companies supported active involvement in public education. Furthermore, 27.9 per cent of respondents reported that their organizations had a policy to recruit from non-traditional labour markets.

Table 2: Extent of Support for Various Human Resource Policies Linked with Training and Development (Percentages)

Training and Development	*Strongly supports*	*Supports*	*Neither supports nor against*	*Against*	*Strongly against*
Provide skills training for new employees	30.5	46.0	17.2	4.5	1.8
Increasing management development	20.8	49.0	22.3	6.0	1.9
Require employees to self-monitor and self-improve through their careers	17.1	45.7	29.2	7.1	0.9
Identify high potential employees early and develop them quickly	17.4	40.9	30.6	7.7	3.4
Require (non optional) continuous training and retraining of all employees	15.0	39.5	31.4	11.4	2.6
Use graduate recruitment schemes	14.3	32.9	36.1	11.0	5.7
Active corporate involvement in public education issues to ensure a quality workforce	9.6	27.9	45.1	13.9	3.5
Recruit from non-traditional and labour markets	5.8	22.1	45.2	21.1	5.8

Communications and Participation

Another important aspect of the competitive advantage of companies is the involvement of employees in matters relating to their working lives and with the affairs of the company as a whole. Human resource management has, as one of its central tenets, the assumption that employees are the single most important asset of the organization. To the extent that this is the case, to facilitate greater employee participation or involvement is clearly basic to successful human resource practices in the firm and, hence, to competitive advantage.

There are three principal routes to greater employee participation in organizations. The first is by legislated standards on employee participation (e.g. works councils, support for employee financial participation). The second is the traditional trade union mode linked with formal and informal collective bargaining. And the third are initiatives by management to support employee participation in the work itself and to provide opportunities for employees to voice their views on developments and problems.

In the last decade or so in Britain, earlier ideas for Industrial Democracy have become no longer a part of the political or legislative agenda, but various European initiatives (particularly with respect to works councils) have recently re-emerged. However, legislative encouragement for employee involvement has developed in the UK such as that for profit sharing and employee share holding schemes, and the House of Lords amendment to the Employment Act, 1982. The latter places a statutory requirement that, in every directors' report (in companies with more than 250 employees), a statement must be included describing the action taken during the year to introduce, maintain and develop arrangements aimed at:

~ Providing employees systematically with information of concern to them as employees;
~ Consulting employees or their representatives on a regular basis so that the views of employees can be taken into account in making decisions which are likely to affect their interests;
~ Encouraging the involvement of employees in the company's performance through an employees' share scheme or by some other means;
~ Achieving a common awareness on the part of all employees of the financial and economic factors affecting the performance of the company.

Trade union-based forms of participation have tended to decline during this period alongside a reduction in union power and influence. Typically, management in Britain have promoted individualistic task-based practices, and have been more opposed to collectivist, trade union-based participation [10]. Managers have also encouraged a number of 'communications' forms of direct employee involvement (such as two-way communications and quality circles) while eschewing board level representative practices.

Firms can, of course, have a variety of co-existing forms of employee participation. This is usually referred to as the employee involvement mix and may encompass downward communications (e.g. team briefing), upward problem solving techniques (e.g. quality circles), financial involvement (e.g. profit sharing) and representative participation (e.g. joint consultation) [11]. Moreover, typical reasons for the introduction and maintenance of employee involvement practices include: information and education, commitment, securing enhanced employee contributions, recruitment and retention of labour, conflict handling and stability, and various external forces (e.g. facilitative and legislation). There is also widespread support for measures to enhance employee participation, despite disagreements on the desirability of given forms [13].

In respect of the *policies* of companies, respondents were asked to indicate to what extent their organizations supported the policies of: (1) promote a participative management style, (2) communicate business directions, problems, and plans to employees, (3) use advanced technology for communicating (electronic bulletin boards, video news programmes) and (4) provide employees with more direct access to information systems.

The findings are set out in Table 3, where the extent of support for various human resource policies linked with communications and participation is indicated. It is evident first of all that, in British companies, it is a clear policy to communicate business directions, problems and plans to employees (69.8 per cent of respondents noting that this applied to their firms). The promotion of a participative management style is also widely endorsed, for 66.6 per cent of respondents indicated that their organizations either supported or strongly supported this policy. Again, 49.3 per cent of respondents noted that, in their organizations, it was the policy to support or strongly support the provision of more direct access to information systems by employees. The use of advanced technology for communicating information to employees was typically neither supported nor opposed (42.3 per cent of respondents indicated that this was their organization's policy). But generally, at the *policy* level, it is clear that British companies are supportive of a variety of programmes for advancing communication and participation.

Table 3: Extent of Support for Various Human Resource Policies Linked with Communication and Participation (percentages)

Communications and Participation	*Strongly supports*	*Supports*	*Neither supports nor against*	*Against*	*Strongly against*
Communicate business directions, problems and plans to employees	23.3	46.5	17.5	9.5	3.1
Promote a participative management style	21.9	44.7	21.5	9.1	2.8
Provide employees with more direct access to information systems	11.1	38.2	33.9	11.6	5.2
Use advanced technology for communicating (electronic bulletin boards, video news programmes)	13.3	22.6	42.3	15.3	6.5

Employee Welfare

The success of Japanese companies on a global scale has been recognised to be linked, at least in part, with advanced employee welfare policies [14]. Such policies take two forms: retrospective and proactive. Retrospective policies, sometimes referred to as Employee Assistance Programmes (EPAs), which are a growing feature in the UK, cater for a range of employee health problems including simple and chronic illnesses, stress, emotional illness, alcohol or drug abuse, family disturbances, financial and legal concerns, etc.. They are generally viewed has helping employees to cope with personal problems and are seen by management as an investment in human resources designed to maintain and enhance workers' productive capacity. Proactive policies or 'wellness' or fitness programmes are an offshoot of EAPs, and relatively uncommon in the UK. They tend to be centred on maintaining or improving the health of the workforce through a variety of programmes including fitness centres, cholesterol screenings, on-site health fairs, cash incentives for participating in exercise programmes, and incentives to stop smoking. Here, criteria such as weight, consumption of tobacco, blood pressure, cholesterol and other health criteria are used to identify and correct health problems in the workforce. Both these types of policies promote physical and mental health but in different ways [15].

The impact of delayering and downsizing has also led to a growth in policies related to *outplacement* or procedures which provide comprehensive approaches to dealing with employees who face redundancy. One of the aims of outplacement is to reduce the stress and trauma of those made redundant by assisting them to obtain other employment and providing emotional and, sometimes, financial support. It also helps, however, to maintain the morale and motivation of those who remain, and reduce the damaging effects of restructuring on the organization [16]. Similarly, part of the response to such restructuring has also been the increasing use of flexible retirement packages, assisting the employee to come to terms with the stress of retirement.

Respondents were thus asked to what extent their organizations endorsed a variety of pertinent policies that included: (1) offering assistance and services to help employees meet family and personal needs, (2) ensuring employees and their families aggressively pursue good health, (3) developing innovative or flexible outplacement programmes for all employees and (4) providing a wide range of flexible retirement opportunities.

The evidence is presented in Table 4, where the extent of support for these various human resource policies linked with employee welfare are set out in a ranked order. It is clear that, in British firms, there is an attempt to further the policy of offering assistance and services to help employees meet family and personal needs (52.7 per cent of respondents indicating that this policy was either supported or strongly supported by their companies).

In most cases, however, there appears to be neither support nor opposition for employee welfare policies. Thus, as will be seen in Table 4, 47.9 per cent of respondents indicated this neutral category applied to ensuring that employees and their families aggressively pursued good health; 49.3 per cent that this was the case for the provision of a wide range of flexible retirement policies, and 49.0 per cent that this applied to the development of innovative or flexible outplacement programmes for all employees. Indeed, for the last two policies negative scores outweighed positive ones. It appears then, that the western concept of individualism and the separation of personal and work experiences appears to be strong. Hence, in British companies, while various employee welfare policies are not typically opposed, equally they are not generally advocated and enthusiastically supported.

Table 4: Extent of Support for Various Human Resource Policies Linked with Employee Welfare (percentages)

Employee Welfare	*Strongly supports*	*Supports*	*Neither supports nor against*	*Against*	*Strongly against*
Offer assistance and services to help employees meet family and personal needs	13.6	39.1	32.4	11.0	3.9
Ensure employees and their families aggressively pursue good health	9.0	27.0	47.9	11.7	4.5
Provide a wide range of flexible retirement policies	5.4	18.4	49.3	17.5	9.5
Development of innovative or flexible out-placement programmes for all employees	5.1	14.8	49.0	22.1	8.9

Rewards and Performance

Modern human resource management approaches also emphasise the importance of linking rewards with performance if a firm is to become a fully competitive organization. According to Armstrong and Murlis [17], 'reward management strategies and policies are driven by corporate *and* human resource management strategies'. All employers use financial rewards as a basic means of motivation and control, and to provide an incentive to perform better. A number of pay strategies are available to management in the 1990s, the more important of which are production-based pay, skilled-based pay and knowledge-based pay.

First, production-based pay or job-based pay is associated with Taylorist methods of mass production and incorporates such systems as job evaluation and piece rates. Associated with this tradition, too, is the 'rate for the job' and notions of equity expressed now in public policy in the Equal Pay Act. More recently, output or production rather than the job has become the central focus, with performance-related schemes dominating British practice.

Second, skilled-based pay allocates differentials in pay based on differences in skills or competencies of non-managerial employees. The employee's skill, not the outcome of the job, forms the basis of pay. Finally, knowledge-based pay is a form of skilled based pay but typically applies to managerial, professional and R & D employees. Pay is determined by the acquisition of knowledge e.g. in terms of the depth of knowledge needed in a particular area [18].

In Britain, management strategies in the reward of employees in the 1980s and 1990s have placed a heavy reliance on incentives such as payment by results and performance pay. Indeed, Brown [19] has described the importance of pay and hours of work in the reward package as:

'By their nature quantifiable, and, thus, generalizable across all manner of jobs and employees, pay and hours provide, however misleading, the only common language of reward. They provide the natural focus for collective bargaining and the obvious channel into which discontents over the more intangible aspects of work can be displaced. They may be only a part of the reward package, but they are the principal part open to transaction between employers and employees, and especially employee organizations. Consequently, the satisfactory management of employment requires the satisfactory management of remuneration as a necessary, if not a sufficient, precondition.'

However, reward strategies not only involve remuneration but also non-monetary rewards, encompassed in an overall reward package. Generally, too, the structure of the reward package is related to the job, the expectations of the employee and labour market conditions.

Since the mid-1980s, British firms have attempted to raise managerial salaries/bonuses in order to reduce the gap in relation to firms in other advanced industrial economies. Moreover, according to Edwards' [20] survey of general managers in large firms, just over 50 per cent of managers receive bonus payments or a share in the profits - but these rarely depend on the performance of the manager's own firm and they only constitute on average an additional 13 per cent to salaries.

One of the salient features of the 1980s and 1990s has been government intervention in the management of remuneration in terms of tax incentives for profit sharing and profit related schemes. The promotion of these schemes in the 1980s [21] led to an upsurge in the take-up of such schemes. Growth has also been noted in harmonisation policies, particularly in greenfield sites which attempt to break away from the incentive-led strategies of the post-war period.

In respect of their organization's policies on rewards, respondents were asked to what extent the following human resource management policies were supported: (1) promote the sharing of both the rewards and risks of business, (2) focus on merit philosophy throughout the organization; emphasise individual performance, (3) encourage, recognise, and reward employees for productivity gains, (4) encourage, recognise and reward employees for enhancing their own skills and knowledge, (5) encourage, recognise and reward employees for innovation and creativity, (6) encourage, recognise and reward employees for customer service and quality, (7) adopt performance appraisal systems using customer ratings and (8) provide flexible benefit packages.

Table 5: Extent of Support for Various Human Resource Policies Linked with Rewards and Performance (percentages)

Rewards and Performance	*Strongly supports*	*Supports*	*Neither supports nor against*	*Against*	*Strongly against*
Focus on merit philosophy throughoutt the organization; emphasise individual performance	18.0	44.8	23.2	8.4	5.5
Encourage, recognise and reward employees for customer service and quality	18.3	36.2	33.4	9.0	3.0
Encourage, recognise and reward employees for innovation and creativity	12.3	39.5	32.5	11.2	4.5
Encourage, recognise and reward employees for productivity gains	14.9	36.8	28.7	13.3	6.3
Encourage, recognise and reward employees for enhancing their own skills or knowledge	11.7	36.1	35.8	11.1	5.2
Promote the sharing of both the rewards and risks of business	7.3	29.2	36.1	17.4	9.9
Adopt performance appraisal systems using customer ratings	10.3	25.1	40.4	16.8	7.4
Provide flexible benefit packages	6.2	21.2	39.7	21.8	11.1

The findings presented in Table 5, above, show the extent of support for various human resource policies linked with rewards and performance. The items are again ranked according to the degree of support indicated by respondents. It is clear that a substantial number of human resource management policies on rewards and performance are supported within British companies. The focus on merit is thus noticeable in that 62.8 per cent of respondents reported that it was their organization's policy either to support or strongly support this policy. The increasing awareness of the importance of the customer is also evident in the finding that 54.5 per cent of respondents noted that their organization had a policy to encourage, recognise, and reward employees for customer service and quality. The encouragement of innovation and creativity on the one hand, and productivity on the other, was also observable. Thus, 51.8 per cent of respondents indicated that it was the policy within their company to support or strongly support measures to encourage, recognise and reward employees for innovation and creativity; while 51.7 per cent of respondents reported that the same applied for the encouragement, recognition and reward of employees for productivity gains.

In other respects, however, the policy within Britain's companies to relate rewards and performance is less noticeable. It is the case that the encouragement, recognition and reward of employees for enhancing their skills and knowledge is quite strong (47.8 per cent of respondents indicating that this was the policy in their company). But only 36.5 per cent of respondents indicated that it was the policy of their organizations to support or strongly support the promotion of the sharing of both the rewards and risks of business; 35.4 per cent that the adoption of performance appraisal systems using customer ratings was supported; and 27.4 per cent that the provision of flexible benefit packages was endorsed.

Conclusions

There are, then, varied findings on the extent to which companies in Britain support a series of human resource management policies which (either explicitly or implicitly) are designed to further competitive advantage. The key conclusions are:

~ Managers' understanding of corporate development clearly includes emphasis on policies concerned with flexibility (both functional and numerical), equal opportunities, increasing spans of control and developing a committed and satisfied workforce. Issues of less saliency are empowerment and full employment policies.
~ With regard to training and development policies, the provision of skills training for employees is of central interest. Management development, career development, the development of high potential employees and support for continuous training and retraining were seen as core elements in the development of competitive advantage in the respondents' organizations. Less support was seen for graduate recruitment, active involvement in public education and recruitment from non-traditional labour markets.
~ As far as participation and communications are concerned, managers are very supportive of communicating information to employees and of giving direct access to employees of such information. However, advanced technology for such provisions was not given overall support. Support was also forthcoming for participative management styles.

- Few organizations in our survey adopted a welfare approach to employees in the search for competitive advantage. Only employee assistance programmes are strongly supported in this area. Other features of welfare associated with health care programmes, outplacment and retirement were not fully supported.
- The importance of rewards and performance in gaining competitive advantage is recognised in the emphasis on merit as a basis for reward. Rewarding, among other items, awareness of the customer, productivity, innovation and creativity are also seen to be given considerable support.

Over the past decade, there have of course been significant changes in organizational environments which have enhanced the importance of competitiveness for managers in Britain and elsewhere. There have been dramatic transformations in national, European and global markets that have forced managements to re-evaluate technological and organizational practices in order to respond to such changes and to meet the challenges of the new market-place. At a European level, the creation of a single market was designed not least to enhance European competitiveness. Moreover, the accelerated economic growth of the Asia-Pacific region, the continued expanding share of output of multi-national enterprises and the promotion of free trade have all been fundamental developments of the modern era.

In this milieu, as our findings indicate, managerial responses have been varied. There has certainly been a flattening of organizational structures and a movement to decentralised organizational forms, together with greater numerical and functional flexibility. Managements have also promoted quality as a key component in their competitive strategies, with a consequent emphasis on making employees more responsible for a variety of work outcomes. But it is also clear that further advances will be required as global competition intensifies.

These wider environmental forces imply that the findings of our study are especially consequential for the general manager. In policy terms it also is clear that, although managers in Britain have made a series of advances to enhance competitiveness, several further developments in respect of human resources are also indicated. These include:

- More employee responsibility and more active encouragement of employee - customer linkages.
- More practical rather than rhetorical support for skills development and retraining, and more active involvement in public education and training ventures.
- More effective employee involvement practices including the important aspect of participation in the distribution of economic rewards.

~ A greater recognition of the saliency of the whole lives of employees (including health and domestic issues) for work performance; and far greater sensitivity over outplacement and redundancy issues.
~ The *re-design* of reward systems to match the *recognition* of the importance of an awareness of the customer, productivity, innovation and creativity for competitive success.

More generally, too, given the growing recognition that not only competitive advantage but, above all, *sustained* competitive advantage is intimately linked with the human resource management policies of firms, there are strong grounds for supposing that many of these policies will be increasingly supported within British companies. There are, of course, many obstacles to a full and comprehensive implementation of human resource policies aimed at securing a sustained competitive advantage. But firms adopting such policies are likely to benefit substantially in the international market -place in the latter part of the 20th century, and even more so as the 21st century develops and unfolds.

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